Analysis of Mid- and Long-term Incentive Policies for State-controlled Listed Companies

Wang Han¹, Wang Dan¹, Xu Yunfei¹
State Grid Energy Research Institute Co.,Ltd., Beijing, China

Abstract—Equity incentives of listed companies are currently the most widely used medium and long-term incentives for state-owned enterprises. However, compared with general listed companies, the implementation of equity incentives for state-controlled listed companies is slightly behind due to the late introduction of the policy. This paper analyzes in detail the development context and related requirements of the relevant policies of state-controlled listed companies' equity incentives, and provides an effective reference and reference for the state-controlled listed companies to carry out equity incentives.

1 INTRODUCTION

As a medium- and long-term incentive method that is widely used internationally, with rich practical experience and mature implementation plan, listed company equity incentives have been used by some private listed companies as early as the 1990s. The China Securities Regulatory Commission and the China Banking Regulatory Commission have always strictly controlled listed companies. Therefore, in a relatively long period of time, although there are more listed companies that want to use equity incentives, the actual implementation and application are not very extensive. It was not until 2002 that the first national-level policy on equity incentives for listed companies, "Guiding Opinions on the Pilot Work of Equity Incentives by State-owned High-tech Enterprises" was issued. It was already in 2006 that a special policy on equity incentives for state-controlled listed companies was introduced.

2 OVERVIEW OF THE RELEVANT POLICIES OF STATE-CONTROLLED LISTED COMPANIES' EQUITY INCENTIVES

A. Exploration and Stabilization Stage (2005~2015)

The development of equity incentive policies for state-controlled listed companies has gone through a relatively long period of exploration and stability. During the period from 2005 to 2008, various ministries and commissions intensively issued a series of policy documents on equity incentives for state-controlled listed companies, which effectively filled the policy gap in this field. However, in the following six years, apart from the two documents for the payment of individual income tax on equity incentives, the ministries and commissions did not issue any relevant policy documents. The equity incentive policies of state-

controlled listed companies have temporarily entered a stage of smooth implementation.[1]

In December 2005, the China Securities Regulatory Commission issued the "Administrative Measures for Equity Incentives of Listed Companies (Trial)". The document, for the first time, made clear requirements and constraints on the model, scope, and number of equity incentives of listed companies at the level of laws and regulations, and stipulated the restrictions and related requirements of listed companies' equity incentives as a whole. It is a framework document for state-owned enterprises to carry out equity incentives.

In 2006, the State-owned Assets Supervision and Administration Commission of the State Council and the China Securities Regulatory Commission issued the "Trial Measures for the Implementation of Equity Incentives by State-controlled Listed Companies (Overseas)" and the "Trial Measures for the Implementation of Equity Incentives by State-controlled Listed Companies (Domestic)" in response to the particularities of state-controlled listed companies.[2] The documents imposed strict, meticulous and rigid constraints on the performance limits, total amount of equity granted, exercise conditions, and program review requirements for state-controlled listed companies to carry out equity incentives.

In 2007, the China Securities Regulatory Commission launched a special activity to strengthen the governance of listed companies, and the approval of equity incentives was suspended. Relevant ministries and commissions have successively issued "Memorandum No. 1, 2 and No. 3 on Equity Incentive Related Matters" "Notice on Strictly Regulating State-controlled Listed Companies (Overseas) Implementation of Equity Incentives" and "Regarding Regulation of State-controlled Listed Companies "Notice on Issues Concerning the Implementation of the Equity Incentive System" and other documents to strictly regulate the implementation of equity incentives.[3]

On the whole, the equity incentive policies of state-controlled listed companies have gone through the process of "from scratch, from strict to strict, from strict to stable" at this stage. The domestic and overseas pilot measures provide clear and detailed requirements and guidance for relevant companies to implement equity incentives. Most of the principles, regulations and restrictions still apply today. The relevant policies issued during this period laid a solid foundation for the rapid implementation and promotion of equity incentives for state-controlled listed companies, and provided clear and standardized requirements and guidance.

B. Development and improvement stage (2016~2018)

At this stage, although no new special policies on equity incentives for state-controlled listed companies have been promulgated, two heavyweight laws and policies concerning equity incentives for listed companies have been promulgated. This provided a fundamental and principled implementation framework for equity incentives of state-controlled listed companies at the top-level design level.[4]

In July 2016, the "Asset Appraisal Law of the People's Republic of China" and the "Administrative Measures for Equity Incentives of Listed Companies" were successively promulgated, which strictly regulated the asset appraisal work in the process of implementing equity incentives by listed companies, and provided them with Important standards and basis.

In 2018, the China Securities Regulatory Commission revised the "Measures for the Administration of Equity Incentives for Listed Companies" in detail, further expanding the scope of participants in equity incentives. Generally speaking, although two important listed company equity incentive laws and policies have been promulgated at this stage, the previously implemented equity incentive policies for state-controlled listed companies have not undergone major adjustments, the main implementation principles and framework No major changes have occurred.[5]

C. Standardization and expansion stage (2019-present)

During this period, the reform of state-owned assets and state-owned enterprises has further accelerated, and the practical experience of equity incentives of state-controlled listed companies has become increasingly rich and mature. With the acceleration of the medium and long-term incentive promotion process of state-owned technology-based enterprises, various ministries and commissions have continuously increased their support for equity incentives of state-owned listed companies.

Since 2019, the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council have respectively issued the "Measures for the Continuous Supervision of Listed Companies on the Science and Technology Innovation Board (for Trial Implementation)"

"Notice on Further Doing a Good Job in Equity Incentives for Listed Companies Controlled by Central Enterprises" and "State-owned Enterprises Holding guidelines for the Implementation of Equity Incentives by Listed Companies" and so on.[6] On the one hand, these documents appropriately relax the restrictions on the implementation of equity incentives in some companies, expand the scope of equity incentives, and increase the incentives for some personnel. On the other hand, these documents also set stricter requirements and restrictions on the implementation of equity incentives by state-controlled listed companies, especially central enterprises, in terms of corporate governance, company operating conditions, and rights exercise conditions.[7]

On the whole, the policy orientation of encouraging and accelerating the development of equity incentives by state-controlled listed companies at this stage is relatively clear, showing the dual characteristics of increased incentives and enhanced control. State-controlled listed companies, especially central enterprises and science and technology innovation board listed companies have greater freedom and strength to implement equity incentives, implementation requirements have become more standardized, and policy development has entered a new stage.

3 STATE-CONTROLLED LISTED COMPANIES' EQUITY INCENTIVE POLICIES AND REGULATIONS

A.Incentive method

The relevant documents do not impose strict restrictions or applicable conditions on the method of equity incentives. Related companies can choose suitable incentive methods according to their actual conditions, which generally include stock options, stock appreciation rights, restricted stocks, etc. In addition, the "Notice on Further Doing a Good Job in Relevant Matters Concerning Equity Incentives for Listed Companies Controlled by Central Enterprises" encourages central enterprises to carry out various forms of equity incentives, proposing that "the progress of implementation of equity incentives by other companies in the stock exchange market can be combined to explore trials Other incentive methods permitted by laws and administrative regulations". The "Guidelines for the Implementation of Equity Incentives for Listed Companies Controlled by Central Enterprises" further clarifies this orientation, clearly stipulating that central enterprises "equity incentives for listed companies include stock options, stock appreciation rights, restricted stocks, and other methods permitted by laws and regulations."[8]

TABLE I. THE MAIN METHOD OF EQUITY INCENTIVE FOR STATE-CONTROLLED LISTED COMPANIES

<i>file name</i>	<i>release time</i>	<i>incentive method</i>
Notice on Issuing the "Trial Measures for the Implementation of Equity Incentives by State-	2006-1-27	Stock options, stock appreciation rights and other equity incentive methods.

<i>file name</i>	<i>release time</i>	<i>incentive method</i>
controlled Listed Companies (Overseas)”		
Notice on Issuing the “Trial Measures for the Implementation of Equity Incentives by State-controlled Listed Companies (Domestic)”	2006-9-30	Listed companies use the company’s stock as the target to implement mid- and long-term incentives for the company’s senior management and other personnel.
Measures for the Administration of Equity Incentives of Listed Companies Measures for the Continuous	2016-7-13	Listed companies use the company’s stock as the target to provide long-term incentives to their directors, senior managers and other employees.
Notice on Further Doing a Good Job in the Equity Incentive Work of Listed Companies Controlled by Central Enterprises	2019-10-24	Generally, stock options, stock appreciation rights, restricted stocks, etc. can also be explored for trial implementation of other incentive methods permitted by laws and administrative regulations.
Guidelines for the Implementation of Equity Incentives for Listed Companies Controlled by Central Enterprises	2020-4-23	The equity incentive methods of listed companies include stock options, stock appreciation rights, restricted stocks, and other methods permitted by laws and regulations.

B.Implementation Conditions

The “Measures for the Administration of Equity Incentives for Listed Companies” mainly make prohibitive provisions on the implementation of equity incentives for state-controlled listed companies from the opposite side, that is, stipulations on situations where equity incentives cannot be implemented. In addition to meeting the above conditions, state-controlled listed companies should also meet relevant requirements in terms of corporate governance structure, performance appraisal system, asset financial status, internal control system, etc. In addition, the "Guidelines for the Implementation of Equity Incentives for Listed Companies Controlled by Central Enterprises" set more stringent and detailed restrictions on listed companies that implement equity incentives. [9] On the basis of the original conditions, the document adds requirements for three system reforms and related restraint mechanisms, and refines other conditions.

C.Incentive Object

The focus of equity incentives is the directors, senior managers of listed companies, and the management, technical and business backbones who have a direct impact on the overall performance and sustainable development of listed companies. Persons in charge of central enterprises under the management of the Central and SASAC, supervisors of listed companies, independent directors, outside directors, and persons who have not served in listed companies or who are not listed

companies shall not be included in the incentive scope.[10] Except for companies listed on the Science and Technology Innovation Board, shareholders or actual controllers who individually or collectively hold more than 5% of the shares of listed companies and their spouses, parents, and children shall not be the objects of incentives.

It is worth noting that the newly issued “Guidelines for the Implementation of Equity Incentives for Listed Companies Controlled by Central Enterprises” in 2020 broke the restriction that state-owned controlling shareholders of listed companies or managers of central enterprises may not “hold up and hold down.” The document stipulates that “state-owned controlling shareholders or managers of central enterprises of listed companies who hold positions other than supervisors in listed companies can participate in the equity incentive plan of the listed company, but they can only participate in the equity incentive plan of one listed company.” And it is clear that “professional managers selected by the market can participate in the equity incentives of the companies they hold their positions.”

D. Number of Shares Granted

Generally speaking, the total amount of equity granted during the validity period of the equity incentive plan shall not exceed 10% of the total equity of the company, among which the listed companies on the Science and Technology Innovation Board can rise to 20%. The number of initial equity grants should be controlled within 1% of the company's total share capital, of which the market value of small and medium-sized and technologically innovative central enterprises holding listed companies can rise up to 3%. In addition, the amount of equity granted by a listed company controlled by a central enterprise in two complete years is generally within 3% of the company's total share capital. For special needs such as major strategic transformation of the company, it can be appropriately relaxed to within 5% of the total share capital.[11]

In addition, unless approved by a special resolution of the general meeting of shareholders, the number of subject stocks involved in the authorized benefits of any one incentive object through all the equity incentive plans within the validity period shall not exceed 1% of the company's total equity.[12]

E. Grant/Exercise Price

According to the requirements of the “Notice on Further Doing a Good Job in Relevant Matters Concerning Equity Incentives for Listed Companies Controlled by Central Enterprises”, the exercise price of stock options and stock appreciation rights shall be determined at fair market prices, and the grant price of restricted stocks shall be determined at not less than 50% of the grant/exercise price of the fair market price. At the same time, in order to encourage short-established enterprises and state-owned enterprises-controlled science and technology innovation board listed companies to implement equity incentives, the document clearly allows the fair market price of

stocks to be lower than the net assets per share, the restricted stock grant price shall not be lower than the fair market price 60% of it is determined. The grant price of restricted stock of listed companies on the Science and Technology Innovation Board is allowed to be lower than 50% of the fair market price.[13] Support the implementation of equity incentives for companies listed on the Science and Technology Innovation Board that have not yet made a profit, but the restricted stock grant price shall be determined at not less than 60% of the fair market price.

F. Performance Requirements

The “Notice on Regulating the Issues Related to the Implementation of the Equity Incentive System by State-controlled Listed Companies” further restricts the performance requirements of enterprises when granting or exercising equity. It is required that “the performance target level when stock options and stock appreciation rights are exercised shall not be lower than the company’s average performance level in the past three years and the average performance level of the same industry; the performance target level when restricted stocks are unlocked shall be combined with the listed company’s The characteristics of the industry and its own strategic development positioning have been improved on the basis of the performance level at the time of award, and shall not be lower than the average performance level of the company in the same industry”.[14] The implementation conditions are more stringent.

The “Guidelines for the Implementation of Equity Incentives for Listed Companies Controlled by State-owned Enterprises” further restrict the exercise conditions for directors and senior managers of listed companies, requiring that no less than 20% of the rewards be drawn from the rewards and locked until the expiration of the term of office after passing the assessment . Restrict the business behavior of executives through stricter unlocking conditions.[15]

G. Incentive Plan Approval Requirements

After the incentive plan of a state-controlled listed company has been reviewed and approved by the board of directors, the proposed equity incentive plan shall be submitted to the institution or department performing the duties of state-owned asset investors for review and approval, and shall be implemented after being reviewed and approved by the general meeting of shareholders.[16] Among them, the equity incentive plan of a listed company controlled by a central enterprise must be reviewed and approved by the central enterprise group company and submitted to the State-owned Assets Supervision and Administration Commission for approval before being submitted to the shareholders meeting for deliberation; the staged implementation plan formulated by the listed company based on the equity incentive plan shall be reviewed and decided by the board of directors Before that, report to the Central Enterprise Group Corporation for review and approval.

4 CONCLUSION

With the continuous expansion of the scope of implementation of equity incentives for state-controlled listed companies, the requirements of related policies are also continuously refined. The policy clauses set stricter requirements on the implementation of equity incentives for state-controlled listed companies, while also making relevant operations more standardized and less risky. At the same time, for some special enterprises, the restrictive conditions of the policy have been relaxed, reflecting the policy's support orientation for the implementation of equity incentives for state-controlled listed companies.

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